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Germany as its main source of heavy machinery to rebuild its armament industries. Great efforts are also being made to purchase US machinery through the intermediary of nations not on the US proscribed list.

2. The restitution program is one method whereby the Czechs can get machinery from the Germans. Instead of dismantling a plant and taking away its machinery the Czechs, or the Russians, as the case may be, allow the plant to continue operating and take machinery produced by it.
3. German plants which have shipped machinery to the CSR are Maschinenfabrik Deutschland, Siemens, and Soest-Ferrum. Although the last named has been dismantled in part for shipment to the Soviet Union, it is producing and can offer delivery of heavy machinery within one year. This firm has also booked orders to Hungary.
4. To purchase machinery in the United States, the Czechs have a Mr. (fnu) Sullivan working as their agent to obtain export licenses in Washington. When Sullivan fails and export licenses cannot be gotten, a Swiss firm will order and pay for the identical machinery, have the material delivered to Switzerland, and then transship it to Czechoslovakia. The Swiss are paid a commission for this. Swedish and Italian firms are used in similar deals.
5. Machinery for the manufacture of large cogwheels used in the production of tanks has been ordered from the Gleason firm in the United States and ~~the~~ packed in New York awaiting shipment to the automobile works at Mlada Boleslav, (051/G 02). An export license has not been issued, so the Czechs are negotiating with a Swiss firm who will order the same machinery from Gleason.

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25X1A

- 2 -

time of this report imports of machinery have reached only five percent of the target and these have come mainly from France and Switzerland. Both of these countries are willing to supply the Czechs, but they take from one to two years to fill orders.

7. The original five year plan emphasized the overall rehabilitation of the country, but the emphasis has been shifted to strengthening the nation's armament producing capacity. In the original plan, for instance, 200,000,000 Kcs were allotted for the purchase of machinery to produce paper and cellulose, in 1949, but this sum was reduced 75 percent to 50,000,000 Kcs. Similar reductions for other industries were also made. Purchasing agents have been instructed to put priorities on armament producing machines, and during 1948 most of the money earmarked for machinery imports was spent on this type, mainly on the highly secret ball bearing program.
8. Construction work at armament factories has been speeded up, dispersals of plants are being carried out. At Dubnica, (P49/T 69) for instance, construction of the heavy gun factory has been hastened. A warehouse for storing models made in the Skoda Works is under construction in the Brdy Forest, and an underground factory is being built at Plotiste near Hradec Kralove (051/G 71).
9. Heavy machines imported into Czechoslovakia, for the most part, remain there and are not resold to the Soviet Union, because the Russians are interested in the products of these machines which they can buy from the Czechs very cheaply under the terms of the Russo-Czech trade agreement. There have been cases, however, where the Czechs have bought machinery for the Russians out of their own dollar funds and have received food products and a ten percent commission in exchange.
10. In spite of the import program, production in the CSR is being hampered by a shortage of raw materials, especially quality alloys.

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**Comment:** Soest-Ferrum at Düsseldorf, was formerly Messrs. Schiess-DeFries.

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